

Message Text

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ACTION NEA-10

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 9172

C O N F I D E N T I A L NEW DELHI 7688

FOR KUX FROM SCHNEIDER

E.O. 11652: GDS

TAGS: MASS, IN, US

SUBJ: PEACE INDIGO

REF: STATE 315292

SUMMARY:

THE PRIME MINISTER HAS ALREADY DECIDED
AGAINST REL-REEVES AND THE GOI HAS TAKEN UP WITH
THE BANK OF AMERICA THE WITHDRAWAL OSW CASH
DEPOSIT.

WE HAVE PASSED REL-REEVES' REQUEST TO THE JOINT
SECRETARY IN THE DEFENSE MINISTRY WHO HAS MANAGED THE
CONTRACT, BUT HE SAYS THE DECISION IS IRREVOCABLE AND THAT
THERE IS NOTHING WHICH REL-REEVES COULD ADD TO DISCUSSIONS
OF SEVERAL WEEKS AGO. REL-REEVES' TRACK RECORD ON THIS
CONTRACT IS POOR (FOUR DELIVERY PERIOD EXTENSIONS AND A
REQUEST FOR 80 PERCENT ADVANCE PAYMENT). REL-REEVES
HAS HAD EVERY OPPORTUNITY TO CONSULT US, KEEP US
INFORMED, ASK FOR OUR HELP ON THIS DURING THE TWO YEARS
WE HAVE BEEN AWARE OF THIS CONTRACT BUT FAILED TO DO SO
UNTIL TODAY. UNDER THE CIRCUMSTANCES WE HAVE CONCLUDED
IT WOULD SERVE NO USEFUL PURPOSE TO GO HIGHER IN THE
GOI AT PRESENT. END SUMMARY.

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1. VIPIN KHANNA, LOCAL AGENT FOR REL-REEVES, CAME IN THIS MORNING, JUNE 11, TO TALK ABOUT REL-REEVES' PEACE INDIGO CONTRACT. KHANNA SAID DECISION TO TERMINATE WAS MADE JUNE 10 BY A SPECIAL GOI COMMITTEE CHAIRED BY THE PRIME MINISTER. KHANNA CLAIMS TO HAVE SEEN MRS. GANDHI AFTER THE DECISION WAS MADE IN AN ATTEMPT TO GET HER TO CHANGE HER MIND. SHE REPORTEDLY SAID THAT SHE WOULD DO SO ONLY IF THE OTHER MEMBERS OF THE COMMITTEE AGREED. ACCORDING TO KHANNA, CONTRACT WAS CANCELLED BECAUSE:

(A) REL-REEVES HAD, AFTER REPEATED EXTENSIONS OF DELIVERY PERIOD SINCE THE JULY 1973 SIGNING OF THE CONTRACT, DELIVERED ONLY ABOUT \$2000,000 OF THE MORE THAN \$550 MILLION WORTH OF EQUIPMENT REQUIRED FOR THE STATIC TRT O # SCATTER

PROJECT. DURING HIS LAST VISIT TO DELHI, REL-REEVES CHAIRMAN FREDSEICK PRO ASKED FOR A FIFTH AND "LASHI" DELIVERY PERIOD EXTENSION. IN ADDITION, HE ASKED THE GOI TO INCREASE IT DOWNPAYMENT ON THE PROJECT BY \$2 MILLION, WHICH WOULD HAVE BROUGHT THE TOTAL ADVANCE GOI PAYMENT TO 80 PERCENT OF THE VALUE OF THE ORDER. (GOI GENERALLY PERMITS ONLY 30 PERCENT DOWNPAYMENT BUT MADE A SPECIAL CASE FOR REL-REEVES

IN GIVING IT 50 PERCENT ON SIGNING OF THE CONTRACT.) ACCORDING TO KHANNA, THIS WAS THE STRAW THAT BROKE THE CAMEL'S BACK. IT GAVE THE GOI REAL REASONS TO QUESTION REL-REEVES' CREDIBILITY.

(B) THE MINISTER OF DEFENSE HAS BEEN UNDER CONSIDERABLE PRESSURE FROM LOCAL MANUFACTURERS OF COMMUNICATIONS EQUIPMENT AND FROM THE GOI ELECTRONICS COMMISSION TO USE INDIGENOUS MANUFACTURED EQUIPMENT FOR THE PROJECT. THE POOR PERFORMANCE OF REL-REEVES GAVE THE PROPONENTS OF LOCAL MANUFACTURE THE OPENING THEY NEEDED, AND THEY REPORTEDLY PRESSED VERY HARD IN THE JUNE 10 MEETING FOR CANCELLATION OF THE CONTRACT. KHANNA SAID THAT THE ONLY COMMITTEE MEMBER WHO SPOKE ON REL-REEVES' BEHALF WAS DEFENSE MINISTER SWARAN SINGH WHO OBSERVED THAT, GIVEN CURRENT ECONOMIC CONDITIONS IN THE US, MANY FIRMS FACED SIMILAR PROBLEMS.

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2. KHANNA OBSERVED THAT THE GOI HAD GIVEN REL-REEVES NO NOTICE BEFORE MAKING THIS DECISION. HE MAINTAINED THAT REL-REEVES HAD BEEN UNABLE TO DELIVER THE EQUIPMENT ON SCHEDULE BECAUSE OF REPEATED REQUESTS BY THE GOI FOR MODIFICATIONS IN DESIGNS AND BECAUSE OF DIFFICULTIES IN OBTAINING SYSTEM COMPONENTS FROM US SUBCONTRACTORS. KHANNA SAID PRO PLANS TO INFORM THE GOI THAT HIS CONTRACT

SPECIFICALLY FORBIDS MANUFACTURE OF SIMILAR EQUIPMENT BY LOCAL FIRMS USING THE DESIGNS AND TECHNOLOGY WHICH HAVE ALREADY BEEN PROVIDED BY REL-REEVES. KHANNA SAID THAT THE GOI INTENDED TO CONTACT THE LOCAL BRANCH OF THE FIRST NATIONAL CITY BANK OF NEW YORK TO WITHDRAW THE BANK GUARANTEE COVERING THE INITIAL DOWNPAYMENT OF \$2.5 MILLION MADE TO REL-REEVES. (LOCAL FNCB MANAGER REPORTS HE HAS RECEIVED LETTER FROM GOI TO THIS EFFECT WHICH HE IS STUDYING.)

3. FIRST COL BROCKMAN AND THEN I SPOKE TO JOINT SECRETARY ANANDAKRISHNA TODAY; HE IS THE DEFENSE MINISTRY OFFICIAL WHO IS RESPONSIBLE FOR THE PEACE INDIGO PROJECT. WE ASKED IF IT WAS NOT POSSIBLE FOR THE GOI TO HOLD THE REL-REEVES MATTER IN ABEYANCE UNTIL PRO COULD GET HERE TO DISCUSS IT. ANANDAKRISHNA REPLIED THAT THE DECISION HAD BEEN TAKEN BY THE GOI AND WAS IRREVOCABLE. HE CONFIRMED THAT STEPS HAD ALREADY BEEN INITIATED BY THE GOI TO RECALL THE BANK GUARANTEE. CONSEQUENTLY, HE SAID THAT IT WOULD SERVE NO PURPOSE FOR PRO TO COME.

4. I CONCLUDE FROM ALL OF THIS THAT WE HAVE DONE AS MUCH AS WE SHOULD AT PRESENT. THE GOI HAS RESERVATIONS ABOUT REL-REEVES' ABILITY TO FULFILL THE CONTRACT AND ON THE FACE OF IT THESE DOUBTS MAY BE JUSTIFIED. I HAVE NO REASON TO DOUBT THAT THIS DECISION HAS BEEN MADE AT A VERY HIGH LEVEL AND IN VIEW OF THAT AN ADDITIONAL INVESTMENT OF OUR CAPITAL DOES NOT SEEM JUSTIFIED ON THE BASIS OF WHAT WE KNOW NOW. THERE WILL BE TROUBLE AHEAD, HOWEVER, IF AS KHANNA FEARS, THE GOI DOES THE JOB ITSELF ON THE BASIS OF REL-REEVES' DRAWINGS. ON THE OTHER HAND ANANDAKRISHNA SAID THAT THE GOI STILL INTENDED TO USE OUR CREDITS FOR THE JOB, WHICH WOULD, OF COURSE, MEAN THE EQUIPMENT WOULD HAVE TO BE PURCHASED IN THE

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US.
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NOTE BY OC/T: MESSAGE AS RECEIVED.

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